REPORT BY THE

AUDITOR GENERAL

OF CALIFORNIA

THE EMPLOYMENT DEVELOPMENT DEPARTMENT COULD IMPROVE THE PERFORMANCE OF ITS JOB SERVICE AND UNEMPLOYMENT INSURANCE PROGRAMS

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REPORT BY THE

OFFICE OF THE AUDITOR GENERAL

TO THE

JOINT LEGISLATIVE AUDIT COMMITTEE

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Honorable Art Agnos
Chairman, and Members of the
Joint Legislative Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning changes in federal and state statutes and in department policies and procedures, which would produce increased recoveries of unemployment insurance overpayments, more job placements, and improved planning and evaluation of automation projects.

Respectfully submitted,

for THOMAS W. HAYES
Auditor General

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SUMMARY

The Employment Development Department (department) could improve the effectiveness and efficiency of its Unemployment Insurance and Job Service programs. Changes in federal statutes and regulations, state statutes, and department policies and procedures could result in increased recoveries of unemployment insurance overpayments, more job placements, and improved planning and evaluation of automation projects.

Overpayment Recovery

The department would have been able to recover $6.2 million of the $13.5 million in overpayments that it wrote off since July 1980 if department policy and state law had been different. Legal and policy limitations restrict the department to recovering unemployment insurance overpayments for only three years after the department establishes the overpayment. Moreover, the civil proceedings involved in attaching an unemployment insurance claimant's wages are costly, and state law does not allow the department to use statutory summary judgments, a less costly alternative.

In 1982, the department had to forgo recovering $1.1 million in fraudulent overpayments because it lacks staff. Staffing problems have also prevented field offices from complying with procedures designed to maximize recoveries. Several alternatives for additional staffing do exist, however. For example, the department could redirect staff to pursue the recovery of overpayments if it automated its collection and

recordkeeping activities. In addition, if legislation were enacted to allow the department to charge a penalty against claimants who fraudulently obtain benefits, the department could raise approximately $4 million in additional revenue that could be used to fund overpayment recovery activities.

Placement of Job Seekers

Job Service staff do not devote enough time to activities that most effectively generate job openings: telephoning employers to solicit jobs and visiting employers to familiarize them with the department's services. Although the Job Service filled over 70 percent of the job openings it received, these placements resulted in jobs for only 14.7 percent of the persons requesting services. With a projected average of 1.2 million unemployed in 1984, there is a continuing need for the Job Service to assist job seekers.

Approximately 70 percent of the field offices we surveyed reported that staff did not have sufficient time to contact employers on behalf of all applicants who would benefit from such efforts. In addition, visits by field office staff to employers have declined by 67 percent over the last four years. Federal statutes and regulations, county policies, and ineffective management practices prevent staff from devoting more time to activities that result in job placements.

Automation Planning and Evaluation

The seven field offices that implemented the California Automation of Services Team (CAST) project have performed better than field offices using manual systems. Field offices using the CAST system process major workload items more quickly, handle high volumes of workload without

staff augmentation, and issue more unemployment insurance benefit payments in a timely manner. Although the CAST offices demonstrate improved performance, they appear to be more expensive to operate than manual field offices. We cannot reach any firm conclusions about cost effectiveness, however, because of inadequacies in the department's cost accounting system.

The CAST offices may not be cost effective because the U.S. Department of Labor's funding method for the unemployment insurance program discourages the department from achieving efficiencies and savings in staff. In addition, the department has not adequately evaluated the CAST system to determine if it is cost effective. As a result, the department, which is currently developing plans for expanding CAST, does not have the information needed to make sound management decisions about how to revise the existing system or design a new system.

Recommendations

To increase the recovery of unemployment benefit overpayments, the Legislature should adopt legislation permitting the department to offset overpayments by reducing a claimant's benefits for a period longer than three years, enact a statutory summary judgment procedure for attaching wages of a claimant who has been overpaid, and permit the department to charge a penalty against claimants who obtain benefits fraudulently. The department should change its policy so that it could recover overpayments by intercepting State income tax refunds for at least eight years. The department also should automate its collection and recordkeeping activities to improve the efficiency of the Benefit Payment Control Program.

To increase the effectiveness of the Job Service, the Legislature should petition the U.S. Department of Labor to provide adequate funding for activities that it requires the department to perform. The department should establish standards specifying the minimum amount of time that field office staff must devote to contacting employers to solicit job offers and should require field offices to use more efficient methods for performing time-consuming activities. The department should also negotiate with counties so that counties require only employable General Assistance recipients to register with the Job Service.

To assist the department in its effort to improve efficiency through automating its field offices, the Legislature should petition the U.S. Department of Labor to change its funding formula. This formula currently discourages efforts to achieve staff savings. The department should redesign its cost accounting system so that the reports on field office operations reflect actual expenditures for unemployment insurance activities and include costs for operating the automated system. Based on data from this redesigned cost accounting system, the department should evaluate the cost effectiveness of each feature of CAST and should use this evaluation to develop a comprehensive plan for automating other field offices.

INTRODUCTION

The Employment Development Department (department) is responsible for statewide employment services, the unemployment insurance program, and the disability insurance program. The department collects taxes and issues benefit payments under the unemployment insurance and disability insurance programs, and it collects personal income taxes withheld by employers.

The unemployment insurance program, which is administered by the department's Operations Branch through regional and district administrators, is one of the department's major responsibilities. The primary objective of this program is to reduce economic hardship by providing benefit payments to eligible workers who, through no fault of their own, are temporarily unemployed. In fiscal year 1981-82, the department disbursed over $1.9 billion in unemployment insurance benefits. The department projects over $2.7 billion in benefit payments for fiscal year 1982-83. The department pays these benefits from the Unemployment Fund, which is financed through unemployment insurance taxes paid by employers.

The department's administrative budget for the unemployment insurance program is primarily funded by the

federal government. In fiscal year 1981-82, this budget was $160.5 million. For fiscal year 1982-83, the administrative budget is estimated to be $209.0 million. This budget supports the operation of 131 field offices throughout the State. The department pays administrative costs from the Federal Unemployment Administration Fund. In fiscal year 1981-82, staff working in the unemployment insurance program accounted for 5,466.6 positions. In fiscal year 1982-83, the number of positions is projected to decline slightly to 5,304.1.

Another major responsibility of the department is employment services, administered by the Operations Branch through regional and district administrators. The department refers qualified job applicants to potential employers and helps youth, welfare recipients, and other economically disadvantaged persons prepare themselves for employment by participating in employment and training programs. The department provides these services through 133 field offices, most of which also provide unemployment insurance services. The budget for the Job Service Division in fiscal year 1981-82 was $73.8 million and supported 2,564.3 positions. For fiscal year 1982-83, the budget is projected to be $72.2 million, funding 2,536.1 positions. The federal government is the principal source of funds for the department's employment services.

SCOPE AND METHODOLOGY

The objective of our review was to identify ways in which the Employment Development Department could improve its operations and services. We focused on the department's methods of recovering overpayments of unemployment insurance benefits, the department's procedures for securing employment for job seekers, and the department's planning and evaluation of the automation of field offices.

To evaluate the department's program to identify and recover unemployment insurance overpayments, we reviewed the department's reports on the types and amounts of overpayments and the extent of recoveries. We interviewed central office staff and field office staff concerning the overpayment recovery operation, and we visited seven field offices to review compliance with departmental procedures. To determine if the department could increase its recoveries, we examined a random sample of cases involving overpayments larger than $25 that the department had written off in fiscal year 1980-81 as not recoverable. We estimated the additional recoveries that the department could have made in these cases if it had continued to reduce unemployment insurance benefits and to intercept state personal income tax refunds for a longer period of time or if it attached wages. We also contacted

unemployment insurance officials in other states to determine what techniques they employ to recover overpayments.

In reviewing the operations of the Job Service Division, we focused primarily on the placement services provided in the field offices. We reviewed federal statutes and regulations governing the Job Service and interviewed central office staff who administer the program. We also visited 15 field offices that provide employment services and interviewed field office managers, Job Service supervisors, and placement officers. We designed a questionnaire to determine the extent of placement activities conducted in the field offices and the number of staff available for these activities. We received responses from 56 of the largest Job Service field offices. In addition, we contacted Job Service staff in other states to determine how they make their employment services more effective.

To evaluate the department's efforts to automate its unemployment insurance field offices, we reviewed State Administrative Manual requirements for planning and evaluating automation projects. We also reviewed the department's feasibility studies and evaluations of its field office automation project. Additionally, we interviewed central office and field office staff involved in the project. Finally, we analyzed the data collection systems that the

department uses to monitor the costs and performance of its operations, and we attempted to use this data to determine whether the automation project is cost effective.

CHAPTER I

THE EMPLOYMENT DEVELOPMENT DEPARTMENT COULD INCREASE RECOVERIES OF UNEMPLOYMENT INSURANCE OVERPAYMENTS

The Employment Development Department (department) and the Legislature could improve the department's ability to recover unemployment insurance overpayments. Current state law and department policy limit the recovery of overpayments through reduction of unemployment benefits and interception of tax refunds to a period of three years from the time the department establishes the overpayments. Furthermore, the department does not pursue wage attachment to recover overpayments because court proceedings required to obtain a judgment are so expensive and because state law does not provide for a statutory summary judgment for attaching wages to collect overpayments of unemployment benefits. Consequently, the department writes off all overpayments as uncollectible three years after the department establishes the overpayment. From July 1980 through November 1982, the department wrote off $13.5 million as uncollectible overpayments. However, if the department could have continued collecting overpayments from unemployment benefits and tax refunds for eight years, and if it could attach wages through a statutory summary judgment, it could have recovered at least $6.2 million of the amount it wrote off as uncollectible.

In addition, the department had to forgo recoveries of $1.1 million in overpayments based on fraudulent claims because it lacks sufficient staff. Staffing problems have also prevented field offices from complying with procedures designed to maximize recoveries of overpayments. However, the department could redirect staff to pursue more overpayments if it automated its collection and recordkeeping activities. In addition, if legislation allowed the department to penalize claimants who fraudulently obtain unemployment insurance benefits, the department could have raised approximately $4 million in additional revenue, which could be used to fund overpayment activities.

The Benefit Payment Control Program

The department administers the Benefit Payment Control Program to identify and recover overpayments of unemployment insurance benefits. Fraudulent overpayments may occur when claimants falsify or intentionally withhold information to obtain benefits. Nonfraudulent overpayments can result from department error or when claimants unintentionally withhold information. During 1982, the department identified over 160,000 overpayments totaling nearly $41 million. Approximately 70,000 of these overpayments, amounting to nearly $22 million, were the result of fraud. Nonfraudulent

overpayments accounted for the remaining cases, totaling approximately $19 million.

To identify fraudulent overpayments, the department has developed an automated system that compares records of unemployment insurance benefit payments with employers' wage records to determine if a claimant received benefits and earned wages at the same time. If the system identifies a potential overpayment case that meets the department's criteria for prosecution, the department may initiate criminal proceedings. If the potential overpayment case does not meet these criteria, it is sent to a field office to determine if an overpayment actually exists. When field office staff verify that a claimant was overpaid, they try to obtain a cash repayment from the claimant. If the claimant is receiving unemployment insurance benefits, the department can reduce that claimant's benefits to recover the overpayment. The department can also recover overpayments by intercepting state personal income tax refunds. Additionally, if the department obtains a court judgment, the department can attach a claimant's wages if the claimant is employed.

The Benefit Payment Control Program is funded by both the Federal Unemployment Administration Fund and the State Employment Development Department Contingent Fund. In federal fiscal year 1982-83, the Federal Unemployment Administration

Fund will provide approximately $9.6 million. The department's Contingent Fund consists of penalty and interest monies collected from employers who did not pay their employers' taxes on time; this fund will provide approximately $4 million in fiscal year 1982-83. Although the resources for administering this program come from these two funds, recovered overpayments are returned to the Unemployment Fund to pay additional benefits.

POTENTIAL TO INCREASE RECOVERY OF BENEFIT OVERPAYMENTS

Changes in both state law and department policies would enable the Employment Development Department to increase its recovery of unemployment insurance benefit overpayments. Under current state law, the department recovers overpayments through reduction of unemployment insurance benefits for up to three years after the department establishes the overpayment. The department also places a three-year limit on recovering overpayments through intercepting state income tax refunds. The department could attach a claimant's wages but does not do so because the proceedings to obtain the required court judgment are so expensive and because state law does not provide a statutory summary judgment procedure, a less costly alternative for recovering overpayments of unemployment insurance benefits by attaching wages. Thus, the department writes off an overpayment as uncollectible three years after it

establishes that an overpayment exists. If the department could have used all of the recovery methods for at least eight years, it could have recovered $6.2 million of the $13.5 million in overpayments it wrote off as uncollectible from July 1980 through November 1982.

Increased Recoveries Through Reduction of Unemployment Insurance Benefits and Interception of Tax Refunds

The department can collect unemployment insurance benefit overpayments through various recovery methods. For example, it can obtain cash payments from claimants or offset the overpayment by reducing a claimant's current unemployment insurance benefits. When these collection efforts fail, the department can intercept a claimant's personal income tax refund.

If the claimant is not making regular payments, the department discontinues all of its collection efforts after three years and writes off the remaining overpayment as uncollectible. The department adopted this policy to parallel Section 1379 of the Unemployment Insurance Code that prevents the department from offsetting overpayments with unemployment insurance benefits for more than three years after the

overpayment was established.* In fiscal year 1980-81, the department wrote off 10,638 overpayments larger than $25; these overpayments totaled $3.86 million.

We determined that the department could have significantly increased its recovery of overpayments if state law and department policy had permitted continued recovery efforts through reducing unemployment benefits and intercepting state tax refunds. To determine the additional overpayments that the department could have recovered if it had been able to use these methods for as long as eight years, we examined a random sample of 295 cases involving overpayments larger than $25 that the department wrote off as uncollectible during fiscal year 1980-81. We calculated the additional overpayments that could have been recovered from unemployment insurance benefits and income tax refunds for the sample cases and projected the total amount that the department could have recovered in the 10,638 overpayment cases that the department wrote off during fiscal year 1980-81.

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* Under certain circumstances, the code permits the recovery of overpayments by reducing unemployment benefits for a period longer than three years. If the claimant reapplies for benefits during the third year of this period, the code permits the department to recover the overpayment during the entire year in which the claimant is claiming benefits. Thus, technically, the department can recover overpayments by this method for more than three years though less than four.

We estimate, at a confidence level of 90 percent, that if the department could have continued to recover overpayments by reducing unemployment insurance benefits for up to eight years, it could have recovered between $472,000 and $1.07 million of the $3.86 million in overpayments that it wrote off in fiscal year 1980-81. Furthermore, if the department had pursued tax refund offsets in these cases for up to eight years, it could have recovered between $804,000 and $1,346,000 of the $3.86 million in overpayments that it wrote off in fiscal year 1980-81.* Finally, if the department had been able to use both these methods, it could have recovered between $1.21 million and $1.96 million that it had written off as uncollectible in fiscal year 1980-81. The combined total does not equal the sum of the totals for the two methods because in some cases either method might recover the total overpayment owed by a claimant; the combined total reflects only the total overpayment that could be recovered in each case.

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* This range includes amounts as if they were recoverable from all tax years beginning in 1977. Due to litigation, however, the department did not attempt tax refund offsets in 1979; this litigation occurred only during 1979 and is not a recurring situation. Therefore, we included tax refund offsets for 1979 in the calculation of potential recoverable amounts.

If the department used these recovery methods for more than three years, it would incur some additional staffing and equipment costs. According to department officials, no more than two additional staff positions would be needed to process cases for intercepting tax refunds. However, fewer staff would be needed to write off cases as uncollectible; this reduction would offset the need for increased staff to intercept tax refunds. The department would also incur additional costs to maintain records in these cases. However, department officials said that records could be maintained on microfiche at minimal cost.

Increased Recoveries Through Wage Attachments

The department can also attach a claimant's wages to recover unemployment insurance overpayments. However, according to department officials, the department does not use this method because the required court proceedings are so expensive that wage attachment is not cost effective. To obtain a judgment permitting the attachment of wages, the department must file a complaint, prepare a case, and appear in civil court to prove that the claimant has been overpaid. Once the judgment is recorded by the county, the department prepares a writ of execution and has the sheriff serve the employer with the writ to attach the claimant's wages.

An alternative to costly court procedures is a statutory summary judgment, a legal provision that would allow the department to obtain a judgment against a claimant without going to court to prove that the claimant has been overpaid. The department could seek a statutory summary judgment only after it determined that a claimant had been overpaid. During the process for determining that a claimant has been overpaid, the claimant has the right to contest the department's determination through two levels of administrative appeal. Once the determination is final, the department files a document with the county in which the claimant resides and receives a judgment authorizing the department to serve a writ and attach wages.

According to department officials, statutory summary judgment procedures would significantly reduce the costs of attaching wages to recover overpayments. However, current state law does not provide for a statutory summary judgment procedure to recover overpayments of unemployment benefits, though the department may use the statutory summary judgment procedure to place a lien on an employer's property to collect delinquent unemployment insurance taxes. We found that three other states use statutory summary judgment procedures to attach wages of claimants to recover overpayments of unemployment benefits.

If the department could use statutory summary judgment procedures to collect overpayments of unemployment benefits, it could significantly increase the collection of overpayments. To determine the amount of additional overpayments that could be recovered if the department were able to attach wages through statutory summary judgment procedures, we used the 224 fraudulent overpayments in our random sample of 295 overpayments written off as uncollectible during fiscal year 1980-81. We restricted our sample to cases of fraudulent overpayments because the department would use statutory summary judgment procedures to collect only those overpayments resulting from fraud. We determined the wages that a claimant received in the years after the overpayment had been written off. Then, based on the federal guidelines for wage attachment, we calculated the amount of the claimant's wages that could be attached.

We estimate, at the 90 percent confidence level, that the department could have recovered between \$1.4 million and \$2.4 million of the \$3.86 million in overpayments it wrote off in fiscal year 1980-81 if it had pursued wage attachments after the overpayments had been written off as uncollectible. If wage attachments were used along with the offset techniques discussed earlier, the department could have recovered between

$1.8 million and $2.7 million of the $3.86 million it wrote off as uncollectible in fiscal year 1980-81.*

From July 1981 through November 1982, the department wrote off an additional $9.7 million in overpayments. If the department had been able to use all three recovery methods and if the rate of recovery were the same as that in our sample, we estimate that the department could have recovered at least $4.4 million of these overpayments. In total, the department could have recovered at least $6.2 million of the $13.5 million written off as uncollectible since July 1980.

LACK OF RESOURCES TO PURSUE FRAUDULENT OVERPAYMENTS AND TO COMPLY WITH PROCEDURES

In addition to increasing recoveries on overpayments it has written off as uncollectible, the department could also increase recoveries of overpayments within the three-year limitation the department has established. We estimate that the department could have increased its net recoveries by $1.1 million if it had processed all fraudulent overpayments during calendar year 1982. However, because of funding and staffing problems, the department reduced the number of

* Again, since in some cases either method by itself might recover a claimant's entire overpayment, the recoverable amount for the combination of all methods is less than the sum of the recoverable amounts for the three methods.

fraudulent unemployment insurance overpayments it processed. In addition, field offices are not maximizing their collections because they lack sufficient staff to comply with department procedures for collecting overpayments. However, the department could redirect staff to pursue more overpayments if it automated its collection and recordkeeping activities. Furthermore, the department could increase the resources available for its overpayment activities if legislation allowed the department to penalize claimants who fraudulently obtain unemployment insurance benefits.

Reduced Collection of Fraudulent Overpayments

Most fraudulent overpayments are identified by the department's automated system that compares records of unemployment insurance payments with employer wage records. After the system identifies a potential overpayment case, the central office sends the case to a field office to determine if an overpayment actually exists. The overpayments are sent to the field offices approximately one year from the time the overpayments were made. Thus, potential overpayments sent to the field offices in 1982 would be for overpayments made in 1981.

In calendar year 1982, the Benefit Payment Control Program reduced the number of potentially fraudulent overpayments it sent to the field offices. The automated system identified nearly 113,000 potentially fraudulent overpayments that could have been sent to the field offices for processing in 1982; however, the department sent only approximately 70,000 of these cases.

In addition, during 1982 the department changed the criteria used in the automated system so that it would identify fewer overpayments. To identify overpayments that were made during the first six months of 1981, the automated overpayment detection system identified a case as a potential overpayment if the claimant had received one week of unemployment insurance benefits and at least $50 in wages in the same three-month period. However, to identify overpayments made during the last six months of 1981, the department changed its criteria so that the automated system identified potential overpayments only if a claimant received wages totaling at least three times the weekly benefit amount, or an average of $270, and received four weeks of unemployment insurance benefits in the same three-month period. This change reduced by approximately 42,000 the number of potential overpayments that could have been sent to the field offices.

The department reduced the number of potentially fraudulent overpayments identified and sent to the field offices in calendar year 1982 primarily because the Benefit Payment Control Program's costs were higher than its budget permitted. These problems began during calendar year 1981, when the workload in the field offices increased because the central office sent to the field offices over 20,000 more overpayment cases than it sent in 1980; these cases had been identified through the automated overpayment detection system. The department's central office allocates funds to the field offices for the Benefit Payment Control Program based on the amount of overpayment recovery work that the field offices do. The increased workload resulted in the field offices' spending more time on overpayments, and serious budget problems occurred because the costs of the program were higher than the budget permitted. Consequently, to reduce its workload and to stay within its budget, the department reduced the number of potential fraudulent overpayments sent to the field offices.

The State hiring freeze, which took effect in March 1982, later created additional staffing problems for the Benefit Payment Control Program because the department was not able to fill vacant positions in the field offices. For example, during federal fiscal year 1981-82, the department was underspending its unemployment insurance funding by an average of 123 positions. This staffing problem occurred at a time

when the field office workload had increased because of the high unemployment rate. To help manage the workload, field office managers redirected Benefit Payment Control Program staff to process and pay unemployment insurance claims. Thus, fewer staff were available to process fraudulent overpayments.

We estimate that the Benefit Payment Control Program could have processed approximately 86,000 more fraudulent overpayments if it had additional resources. If it had processed these additional 86,000 cases, the program could have recovered an additional $2.8 million from fraudulent overpayments. To handle this workload, the program would have required 65 additional staff at a cost of $1.7 million. Thus, the program could have increased its net recoveries by approximately $1.1 million. (See the Appendix for an explanation of how these estimates were determined.)

Field Office Noncompliance With Procedures

The hiring freeze and insufficient staff has also caused other problems for the Benefit Payment Control Program. Field office staff say that they are unable to comply with department procedures for collecting overpayments because staff have been redirected to pay unemployment insurance claims. Because of insufficient staff, some field offices have placed a

lower priority on sending monthly collection letters and on sending cases to the central office for transmission to the Franchise Tax Board for interception of tax refunds to offset overpayments.

The department's procedures direct field offices to send monthly collection letters to claimants who have received overpayments. In 1982, the department conducted a study that indicates that sending collection letters to claimants increases the chances of recovering the overpayments. The study found that 22 field offices that sent monthly collection letters in a large proportion of their cases had a higher collection rate than all but one of 23 other field offices that sent collection letters in a smaller proportion of their cases.

Despite this evidence, three of the seven field offices we visited were not sending collection letters every month in 40 percent to 85 percent of the cases we reviewed. In addition, the collection rates in these three offices were lower than the collection rates in all but one of the four offices that were sending collection letters more frequently. Thus, these offices were not taking all possible steps to maximize their collections.

The department's procedures also require the field offices to send cases to the central office when normal collection efforts fail. The department's procedures require field offices to refer cases to the central office when there is no longer an active unemployment insurance claim on file and field office staff have sent three collection letters without receiving any payments from the claimants. The central office then sends these cases to the Franchise Tax Board to intercept claimants' state tax refunds.

However, some offices we visited were not sending cases to the central office as soon as required. In one office, we found a case involving a $240 overpayment in which the claimant had not made any payments since the overpayment was established in February 1981. Because the field office failed to send this case to the central office, it missed the opportunity to recover the overpayment by intercepting the claimant's state tax refund. In four of the seven offices we visited, we found that the field offices were not sending overpayment cases to the central office as soon as required in 13 percent to 27 percent of the cases we reviewed. As a result, some field offices are missing opportunities to recover overpayments by intercepting tax refunds.

Alternatives for Additional Staffing

According to department officials, the Benefit Payment Control Program will probably not receive additional funding. However, the program could increase its efficiency and subsequently redirect existing staff if it automated the overpayment collection and recordkeeping activities. In addition, the program could obtain additional funds if it began charging claimants a penalty for overpayments based on fraudulent claims.

Automated Collection and Recordkeeping

The collection and recordkeeping activities of the Benefit Payment Control Program consist primarily of routine clerical tasks. To make collections, field office staff send a letter to claimants each month informing them that a payment is due. To send a collection letter, the staff must obtain the overpayment case from the files, type the claimant's name and the current overpayment amount on a form letter, mail the letter to the claimant, and then return the case to the files. Recordkeeping activities consist mainly of recording transactions that affect the status of an overpayment. The staff must obtain a ledger card from the files, record the transaction, and then return the ledger card to the files.

The U.S. Department of Labor has encouraged states to automate these collection and recordkeeping activities to improve efficiency. In its publication, Resource Handbook on Overpayment Recovery, the Department of Labor states as follows:

> Cost savings are realized when routine, large-volume clerical operations are automated. Overpayment recordkeeping and certain initial collection activities are routine clerical tasks which are cost effective to automate. Thus, a main feature of the comprehensive recovery program is an automated system for overpayment recordkeeping and certain recovery techniques.

In keeping with the Department of Labor's recommendation, 35 states have automated their collection activities, and 32 states have automated their recordkeeping activities.

The department has recently developed a proposal that indicates that automating its collection and recordkeeping activities would be cost effective. This proposal estimates that automating its collection activities could save the department approximately $600,000 each year. We estimate that automating the collection function would save approximately 22 positions because the field office staff would no longer have to prepare collection letters manually. Similarly, by automating its recordkeeping function, the department estimates

it could save approximately 11 positions, a savings of nearly $300,000 in the first year.

The department's proposal, which is based on expanding its existing computer system, estimates that the initial cost to automate would be only $25,000 and that annual operating costs would be approximately $36,000. The proposal estimates that the net savings from automating the overpayment collection and recordkeeping activities would be over $800,000 in the first year alone.

Overall, we estimate that automating these functions would produce a savings of 33 positions. If the department were to use this savings in staff time to redirect its resources to process more fraudulent overpayments, we estimate that 33 additional staff would have been able to process approximately 43,000 more cases in calendar year 1982. If the staff were to process these 43,000 additional cases, we estimate that the department would increase collections by approximately $875,000.

Automating the collection activity would provide additional benefits. According to department officials, automating this activity would ensure that collection letters are sent every month. As we mentioned earlier, some field offices are not sending collection letters every month.

Because consistent billing seems to increase the recovery of overpayments, automating this activity would probably result in more collections.

At the time of our review, department officials were reviewing the proposal to automate the collection and recordkeeping activities. The proposal will also require approval by the department's Data Processing User Board. According to department officials, proposals to automate these activities have been developed in the past, but these proposals were not implemented because the department had placed a lower priority on automating activities of the Benefit Payment Control Program and a higher priority on automating other activities such as the payment of benefits.

Penalties for Fraudulent Claims

In 1982, the U.S. Department of Labor stated that an alternative source of funding for states' Benefit Payment Control Programs is a penalty or interest charge on fraudulent overpayments. In another report, the Department of Labor recommends that states seek legislative changes to allow the states to assess interest on fraudulent overpayments. Several states do assess a penalty or interest on overpayments. New Jersey, for example, charges a $20 penalty for each week of benefits that claimants obtain fraudulently. Arizona assesses

an interest charge of 10 percent per annum on all overpayments. In addition, the U.S. Internal Revenue Service and the State's Franchise Tax Board assess a penalty of 50 percent on fraudulent tax underpayments.

Pending legislation would enable the department to assess a 30 percent penalty against claimants who fraudulently obtain unemployment insurance benefits. The penalties collected would be used to fund the identification and collection of unemployment insurance overpayments. We estimate that if the department had been able to collect this 30 percent penalty on all fraudulent overpayments collected in 1982, the department would have collected approximately $4 million in additional revenue.

The 30 percent penalty would provide essentially the same amount of money appropriated from the Contingent Fund in 1982 to support the Benefit Payment Control Program. In addition, the amount of revenue collected from a penalty on fraudulent overpayments would increase if the program increased its identification and processing of fraudulent overpayments or if the collection rate increased. According to a department official, funding activities of the Benefit Payment Control Program from penalties would also free existing Contingent Fund monies to be used for other programs.

CONCLUSION

According to state law, the Employment Development Department can collect overpayments of unemployment insurance benefits by reducing unemployment insurance payments for a period of three years from the date the overpayment was established. Furthermore, the department also stops intercepting state income tax refunds to offset overpayments three years after the overpayment was established. Because of these two limitations, the department writes off all overpayments three years after the date on which the department established the overpayment. From July 1980 through November 1982, the department wrote off as uncollectible \$13.5 million in overpayments. Current state law also requires court procedures that make recovery of overpayments by attaching wages not cost effective. If state law and department policy had been different, the department could have increased recoveries of overpayments written off as uncollectible since July 1980 by at least \$6.2 million.

Because of funding and staffing problems, the department also had to forgo recovery of an additional \$1.1 million in fraudulent overpayments.

Staffing problems have also resulted in field offices' not complying with procedures to maximize recoveries. However, the department could redirect some of its staff to pursue more overpayments if it automated its collection and recordkeeping activities. In addition, the department could raise $4 million in additional revenue, which could be used to fund overpayment activities, if it were allowed to charge a penalty against claimants who fraudulently obtain benefits.

RECOMMENDATION

To increase the recovery of unemployment insurance overpayments, the Legislature should do the following:

- Change Section 1379 of the Unemployment Insurance Code to allow the department to recover unemployment insurance overpayments by reducing benefit payments for at least eight years; and

- Adopt legislation to allow the department to obtain statutory summary judgments for wage attachments against claimants who fraudulently obtain unemployment insurance benefits.

To generate additional funding for the Benefit Payment Control Program, the Legislature should adopt legislation to allow the department to assess a penalty against claimants who fraudulently obtain benefits.

To increase recoveries of unemployment insurance overpayments, the department should do the following:

- Pursue recovery of overpayments through interception of state tax refunds for at least eight years;

- Pursue recovery of overpayments through reduction of unemployment insurance benefits for at least eight years once the Legislature increases the period of time the department may employ this technique; and

- Pursue wage attachments to recover overpayments once the Legislature allows the department to obtain statutory summary judgments against claimants who fraudulently obtain unemployment insurance benefits.

To improve the efficiency of its Benefit Payment Control Program, the Employment Development Department should automate the overpayment collection and recordkeeping activities.

CHAPTER II

THE EMPLOYMENT DEVELOPMENT DEPARTMENT COULD PLACE MORE PERSONS IN JOBS

The Employment Development Department's Job Service staff do not spend sufficient time on activities that are most effective in securing jobs for the unemployed. Although the Job Service filled 70.7 percent of the job openings it received, these placements provided jobs for only 14.7 percent of the persons requesting placement. Field offices we surveyed reported that staff did not have sufficient time to telephone employers on behalf of all applicants who would benefit from such efforts. Moreover, visits by field office staff to employers have declined by 67 percent over the last four years. Finally, we found that federal statutes and regulations, county policies, and ineffective management practices prevent staff from devoting more time to activities that result in job placements.

The Job Service

The Job Service is a federally funded program to assist job seekers in their efforts to obtain employment. Job Service offices located throughout the State provide job seekers with free assistance in finding jobs. This assistance may include providing vocational counseling and aptitude

testing, furnishing information on the supply and demand for different occupations, conducting workshops to train job seekers on how to find jobs, and referring individuals to employers with job openings. Job Service offices also provide free services to employers. Any employer who needs to fill a vacant position may place a "job order" with the Job Service. The Job Service then attempts to fill the job order by referring qualified workers to the employer.

Two methods that Job Service field office staff use to obtain job orders and place job seekers are job development contacts and employer visits. A job development contact is any instance in which a Job Service staff member contacts an employer to solicit an interview for an applicant for whom the field office does not have a suitable opening. An employer visit refers to any occasion when a Job Service representative visits an employer. During such a visit, the Job Service representative informs the employer about services that are available, such as the screening and referring of qualified applicants for vacant jobs.

During federal fiscal year 1981-82, the Job Service received orders for 692,002 jobs and placed workers in 70.7 percent of these jobs. The Job Service could not fill all of these job orders because employers subsequently cancelled some of the requests and because applicants with suitable

skills could not always be found. Nevertheless, although the Job Service did fill 70 percent of the job openings, these placements resulted in jobs for only 14.7 percent of the persons who registered with the Job Service for assistance in finding employment. With an estimated 1.37 million Californians unemployed during February 1983 and a projected average of 1.2 million unemployed during 1984, there is a continuing need for the Job Service to assist job seekers.

LIMITED EMPHASIS ON JOB DEVELOPMENT CONTACTS AND EMPLOYER VISITS

Job Service field offices do not devote enough time to job development contacts and visits to employers, activities that most often lead to job placements. Nearly 70 percent of the field offices we surveyed reported that staff did not have time to conduct job development contacts for all workers who would benefit from such efforts. In addition, the number of employer visits conducted by staff has declined by 67 percent over the last four years.

Job Development Contacts

Because the Job Service is federally funded, the federal government requires the department to report the results of the department's services for job seekers. The

department's report for federal fiscal year 1981-82 showed that job development contacts were the single most effective method of securing jobs for the unemployed. The report stated that job development contacts led to employment for 27.8 percent of the individuals for whom such contacts were made. Similarly, employment was secured for 19.2 percent of the individuals who received job counseling, and 10.3 percent of the individuals who participated in job search training workshops or job finding clubs. Overall, the Job Service secured employment for 14.7 percent of its applicants.

However, even though the department's report shows the effectiveness of job developing contacts in securing placement for job seekers, our survey of field offices found wide variations in the number of job development contacts that placement officers are expected to make. Of the 56 offices we surveyed, 13 (23.6 percent) did not require placement officers to conduct a minimum number of job development contacts per week. For the 42 offices that did report minimum standards, the number of required job development contacts per placement officer ranged from a low of one per week to a high of 15 per week.

Although the department has not issued any statewide minimum standards for the number of job development contacts that a placement officer is expected to make each week, it has

directed field office staff to emphasize job development contacts for "highly placeable applicants." Complying with this directive could be difficult for field office staff because 70 percent of the field offices we surveyed reported that staff did not have sufficient time to make job development contacts for all persons who could have benefited from this activity.

<u>Employer Visits</u>

Job orders are also generated when Job Service staff visit employers. Our contacts with Job Service staff in other states showed that employer visits are an effective means of generating job orders. We found a significant correlation between employer visits conducted and job openings received by the Texas Employment Commission during 1981 and 1982. A correlation coefficient of the magnitude we found (.75) indicates that an increase in job orders received is closely associated with an increase in employer visits. The Chief of Placement of the Texas Employment Commission stated that as employer visits increase there is an almost immediate increase in the number of job orders received.

Several other states have reported similar findings. The New Mexico Job Service attributed a 27 percent increase in job orders in 1979 to its employer relations program. The

Nevada Job Service attributed a 53 percent increase in job orders in Las Vegas and a 63 percent increase in job orders in Reno during 1980 to increases in employer visits. In addition, Job Service field offices in Arkansas, Maine, New Jersey, and Vermont have attributed increases in job orders to increased employer visits. Job Service field offices in Maine and New Jersey have also attributed increases in placements to increases in employer visits.

Our own survey of Job Service field offices in California indicates that visits to employers by Job Service staff help place unemployed workers in jobs. The 15 field offices in our survey with the highest placement rates, placing an average of 17.2 percent of their job applicants, devoted an average of 18.5 hours of staff time per week to visiting employers. In contrast, the 15 offices in our survey with the lowest placement rates, averaging 7.5 percent, devoted an average of 10.1 hours of staff time per week to employer visits.

Despite the demonstrated success of employer visits in increasing the number of job orders a field office receives, employer visits have decreased significantly in California. Field office staff conducted 55,997 employer visits during federal fiscal year 1981-82. This figure represents a 67 percent decrease from the 169,532 such visits conducted

during federal fiscal year 1977-78. Only 3 of the 56 offices we surveyed indicated that their efforts to visit employers had increased during the last three years. Moreover, 10 field offices (17.9 percent) reported that, with the exception of occasional field visits by staff in the Disabled Veterans Outreach Program, placement staff are not visiting any employers. Those field offices in which staff did visit employers devoted an average of 16.7 staff hours per week to this activity, with an overall range of from one to 80 hours per week of staff time devoted to employer visits.

The department issued a directive on January 7, 1983, encouraging field offices to increase their employer visits as resources permit. However, the department has not issued any minimum statewide standards for the number of employer visits that field offices should conduct.

BARRIERS TO DEVOTING MORE TIME TO ACTIVITIES THAT GENERATE JOB ORDERS

Job Service field office staff do not devote time to activities that generate job orders because federal statutes and regulations and county policies mandate activities that consume a significant amount of staff resources. These activities are not related to placing members of the general public in jobs and generally require staff to perform duties

that do not generate job orders. Unless federal and county governments provide sufficient funds for these mandated activities, the Job Service will be forced to redirect resources away from serving the general public. In addition, the management practices in some field offices lead to ineffective use of staff.

Regulations and Statutes

Federal statutes and regulations require many field offices to maintain Disabled Veterans Outreach Program staff and Local Veterans Employment Representatives devoted exclusively to providing services for veterans. These positions are referred to as "dedicated" to serving veterans. However, the federal government does not provide specific funds for these dedicated positions. Consequently, the Job Service must redirect resources away from providing placement services to the general public in order to support these positions. Moreover, we found that staff in dedicated positions often do not have a full workload. In our survey of field offices, 20 (35.7 percent) of 56 offices reported that the number of veterans in their areas was not sufficient to provide a full workload for the required dedicated positions.

Other federal regulations mandate that some individuals register with the Job Service to remain eligible

for benefits under certain programs. For example, all persons receiving unemployment insurance benefits beyond the regular claim period through the Federal Supplemental Compensation Program must register with the Job Service. The U.S. Department of Labor provided the department with $774,000 for registering these persons with the Job Service for federal fiscal year 1982-83. However, this funding was for one year only and will not necessarily be provided again in the future. In addition, the U.S. Department of Labor requires that some persons receiving unemployment benefits beyond the regular claim period through the Extended Duration portion of the unemployment compensation program register with the Job Service. The department does not receive any additional funding to conduct these registrations.

Field office managers also indicated that Job Service resources that are supposed to be available for placement work must sometimes be used for the federal Targeted Jobs Tax Credit program. This program enables employers to receive tax credits for wages paid to workers in targeted groups, such as youths from economically disadvantaged families and Vietnam-era veterans. Responses to our survey indicate that the processing required for the Targeted Jobs Tax Credit program often consumes more resources than the department allocates for this activity. As a result, Job Service staff who would otherwise

be performing placement activities must devote time to this program.

Finally, most California counties require all persons who receive General Assistance payments for basic sustenance to register with the Job Service. Some counties require these persons to make additional visits to the Job Service after they have registered. In addition, when those who receive General Assistance payments are requested to appear at hearings concerning their eligibility, Job Service staff must sometimes attend to provide testimony. At present, most counties do not provide any funds to compensate the Job Service for these services to individuals who receive General Assistance payments.

Two counties have cooperated with Job Service field offices to decrease the staff time that must be spent in registering individuals who receive General Assistance. The Orange County Department of Social Services provides two Job Service field offices with staff for conducting these registrations. All employable individuals who receive General Assistance from Orange County must register with the Job Service at one of these two offices. The Alameda County Department of Social Services reversed its former policy, and no longer requires individuals to register with the Job Service in order to remain eligible for General Assistance.

Ineffective Management

Ineffective management practices in some Job Service field offices may further strain placement resources. For example, many field office managers indicated that serving persons required to register with the Job Service consumes a significant amount of staff time. Thirteen of the offices we surveyed spend at least 15 percent of their staff time conducting these mandatory registrations. However, 9 of these 13 field offices do not attempt to register applicants in group settings. The Job Service field offices that do conduct group registrations have found that this practice enables placement officers to devote additional time to attempting job development contacts.

Furthermore, 15 of the field offices we surveyed spend at least 20 percent of their staff time interviewing persons who are not qualified for the jobs to which they wish to be referred. However, 12 of these field offices contribute to this problem by listing all job orders on public bulletin boards known as Job Information Centers. Field offices that list only those job orders that cannot be filled after placement officers search their files for qualified workers found that doing so reduces the amount of time that placement staff must spend interviewing individuals who are not qualified for the jobs to which they wish to be referred. Some field

offices have also been able to reduce the amount of staff time consumed by these inappropriate self-referrals by restricting the hours during which job orders are posted on the Job Information Center.

On January 7, 1983, the department issued a directive addressing the problems associated with listing job orders on the Job Information Center. The directive granted field office managers the authority to restrict both the types of jobs that are listed and the hours during which job orders are posted. However, our survey indicates that at least 12 of the 15 field offices have not taken advantage of this opportunity to restrict their use of the Job Information Center.

CONCLUSION

The Job Service field offices can increase their placements if they increase the number of job orders they receive. Two of the most effective methods for increasing the number of job orders are job development contacts and employer visits. However, 23.6 percent of the field offices we surveyed do not require a minimum number of job development contacts per week. Furthermore, 70 percent of the field offices indicated that they do not have sufficient staff to make job development contacts for all

persons who could benefit from this activity. In addition, while employer visits are an effective means of generating job orders, employer visits have decreased by 67 percent over the last four fiscal years. In addition, federal statutes and regulations, county policies, and management practices in some field offices limit the amount of time that staff can devote to job development contacts and employer visits.

RECOMMENDATION

To increase the placement of Job Service applicants, the Employment Development Department should emphasize activities that produce the greatest benefits, and it should increase the amount of time that Job Service field office staff have available for job development contacts and employer visits. Specifically, the department should do the following:

- Establish minimum standards for the amount of time that Job Service field office staff must devote to making job development contacts and visiting employers;

- Direct field offices to conduct group registrations when placement staff are found to

be devoting a significant amount of time to serving individuals required to register with the Job Service;

- Direct those field offices in which placement staff devote a significant amount of time to interviewing inappropriate self-referrals from the Job Information Center to restrict both the types of jobs that are posted and the hours during which these jobs are posted; and

- Either obtain agreements with counties to require only those General Assistance recipients who are employable to register with the Job Service and return for periodic visits or negotiate with counties for reimbursement for services provided to these recipients.

To increase the amount of time that Job Service field office staff have available to make job development contacts and employer visits, the Legislature should enlist the assistance of the California Congressional Delegation to do the following:

- Petition the U.S. Congress either to provide additional funding for Disabled Veterans

Outreach Program positions or to grant greater flexibility in the use of these positions;

- Petition the U.S. Department of Labor to grant greater flexibility in the use of Local Veterans Employment Representatives;

- Petition the U.S. Department of Labor either to provide adequate funding for registering persons who receive benefits through the Extended Duration portion of the unemployment compensation program or the Federal Supplemental Claims program or to eliminate the requirement that these persons register with the Job Service; and

- Petition the U.S. Department of Labor to provide adequate funding for the completion of work related to the Targeted Jobs Tax Credit program.

CHAPTER III

THE EMPLOYMENT DEVELOPMENT DEPARTMENT COULD IMPROVE ITS PLANNING AND EVALUATION OF FIELD OFFICE AUTOMATION

Employment Development Department field offices using the California Automation of Services Team (CAST) system to process their unemployment insurance workload have performed better than field offices that process this workload by hand. Compared to the "manual field offices", the "CAST offices" have processed major workload items more quickly, handled high volumes of workload without augmenting staff, and issued unemployment insurance benefit payments in a timely manner. Although the CAST offices demonstrate improved performance, they appear to be more expensive to operate than manual field offices. We cannot reach any firm conclusions about cost effectiveness because of inadequacies in the department's cost accounting system. The CAST offices may not be cost effective because the U.S. Department of Labor's funding formula for administering the unemployment insurance program discourages the department from achieving efficiencies and savings in staff. In addition, the department has not adequately evaluated the automated system to determine if it is cost effective. As a result, the department, which is currently developing plans for expanding the automated system, does not

have the information needed to make sound management decisions about how to design the new system.

The California Automation of Services Team Project

The department's California Automation of Services Team project was initiated to test the feasibility of combining the Unemployment Insurance and Job Service functions through automation and to improve the quality and efficiency of operations in the Unemployment Insurance Division, the Job Service Division, and the Employment Tax Branch. The CAST project was also designed to help the Unemployment Insurance Division cope with its budget constraints and large workload. The U.S. Department of Labor originally provided $2.8 million in funding for this project, which began in January 1979 and was implemented in four Sacramento area field offices between July 1980 and April 1981. The result was an automated system, connected to the Health and Welfare Agency Data Center, that performs unemployment insurance functions.

The original system automated the three basic unemployment insurance workload categories:

- Initial claims - the activities associated with a claimant filing a claim for unemployment insurance benefits;

- Weeks claimed - the process of verifying eligibility and issuing payments for each week that a claimant certifies as being eligible for benefits; and

- Determinations - the formal review of claimant eligibility.

The department also automated aspects of the Job Service program and certain tax functions. However, according to a department official, by March 1982 the department dropped from the system all Job Service features, citing Job Service budget cuts and lack of demonstrated cost effectiveness as the primary reasons.

In April 1982, the department prepared a Feasibility Study Report for implementing the unemployment insurance functions of the CAST system in three additional field offices in Northern California. The Department of Finance approved the expansion plan in June 1982, and the department completed implementation in July 1982.

"CAST" HAS IMPROVED EFFICIENCY OF UNEMPLOYMENT INSURANCE SERVICES

The seven field offices using the CAST automated system to process their unemployment insurance workload are more efficient and perform better than the field offices that

process their unemployment insurance workload by hand. The department conducts cost model studies, which are similar to time and motion studies, to determine how many minutes staff need to complete a unit of workload. These studies produce measurements called "minutes per unit." The department conducted studies in October 1979, before CAST was implemented, and again in January and November 1981, after CAST was implemented. Table 1 shows the results of the three studies.

TABLE 1

TIME REQUIRED TO COMPLETE BASIC WORKLOAD ACTIVITIES IN FIELD OFFICES USING "CAST" SYSTEM (In Minutes Per Unit)

Study	Initial Claims	Weeks Claimed	Determinations
Pre-CAST Implementation:			
October 1979	33.458	7.855	a
Post-CAST Implementation:			
January 1981	28.446	3.717	68.049
November 1981	25.648	3.426	53.981

[a] Comparable data on pre-CAST performance for determinations are not available because of changes in the tasks required to perform an eligibility determination.

As the table shows, the CAST offices have demonstrated consistent decline in the minutes per unit required to perform basic workload functions.

According to department officials, the CAST offices have also been able to handle, without the assistance of central office staff, the high workload volume that the State has been experiencing. In contrast, since January 1983, the central office has had to assign central office staff to manual field offices to process the unemployment insurance workload. These central office staff were supposed to be operating administrative and support functions at headquarters. This augmentation of staff in the manual offices has amounted to 175 work weeks. None of the CAST offices has required an augmentation of staff.

The CAST offices have also issued unemployment insurance benefits more promptly than the manual offices. The U.S. Department of Labor requires that the department issue 87 percent of its unemployment insurance payments for claimants' first compensable weeks within 14 days after eligible claimants file for benefits. During December 1982 and January and February 1983, the only period for which this data are available, the CAST offices exceeded the Department of Labor's standard, issuing 93.1 percent of their payments within 14 days. The rest of the field offices fell below the standard, issuing only 80.8 percent of their payments within 14 days.

THE "CAST" SYSTEM MAY NOT BE COST EFFECTIVE

Although CAST offices have performed certain functions more efficiently than manual field offices, the CAST offices may not be cost effective. We estimated that the cost of operating the CAST offices in federal fiscal year 1981-82 was $3,980,185.* If these offices had processed their workload manually, they would have cost approximately $3,929,505 to operate. This figure seems to indicate that the CAST offices were more expensive to operate by $50,680. Our analysis of specific workload categories showed that the cost of performing initial claims and weeks claimed activities in CAST offices exceeded the cost of performing these same activities in manual field offices. Determinations cost less to process in the CAST offices than in manual field offices. Table 2 below shows the unit cost of these activities at the CAST and manual field offices.

* The estimated costs refer only to the personal services costs of processing the automated workload items and the increased nonpersonal services costs incurred as a result of that automation. These figures do not represent the total cost of operating the seven CAST offices.

TABLE 2

UNIT COST IN "CAST" OFFICES
COMPARED WITH UNIT COST
IN MANUAL FIELD OFFICES
FEDERAL FISCAL YEAR 1981-82

	CAST Offices			Manual Offices
Unemployment Insurance Activity	Personal Services	Automation Expense	Total Unit Cost	Personal Services
Claims Processing[a]	$ 1.68	$1.38	$ 3.06	$ 2.36
Determinations	$12.55	$0.91	$13.46	$14.80

[a] This category includes both initial claims and weeks claimed activities.

As the table shows, claims processing in the CAST offices was more expensive, $3.06 per claim, than in the manual offices, $2.36 per claim. Determinations were less expensive to handle in the CAST offices, $13.46 compared with $14.80.

Reaching firm conclusions about the cost effectiveness of CAST is difficult because of problems with the department's cost accounting practices. To determine the staffing costs for both CAST and manual field offices, we had to rely on one of the department's cost accounting reports. This report, however, did not accurately reflect how staff are used in the manual field offices. In practice, managers in manual field offices direct staff to perform activities

required by the workload in the field office, but the managers charge staff time to activities that have sufficient budget allocations remaining each month. These activities may not be ones that staff spent as much time on as is reported. The cost accounting reports are thus more representative of the budget allocation than the actual use of staff. As a result, the cost accounting reports understate the staffing costs associated with the main workload items that we examined. Because the staffing costs of operating manual field offices are understated, we suspect that it would cost more than the estimate of $3,929,505 to process workload manually in the CAST offices.* If that figure were only slightly higher, then the CAST offices would be cost effective.

Furthermore, we were able only to estimate the cost of the additional data processing that would result from automation. Charges for work performed by the Health and Welfare Agency Data Center account for a large portion of the cost increase attributable to automating the field offices. However, the department's cost accounting system does not identify these charges by field offices. Consequently, because all of the automation expenses were not available, we could not

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* The staffing costs for operating the CAST offices are probably not overstated. Because the CAST offices operate more efficiently than the manual offices, managers of CAST field offices can charge staff time to the activities on which staff actually work.

compare the actual costs of operating manual and automated field offices. Department officials have indicated since December 1982 that they intend to modify the cost accounting system to identify Health and Welfare Agency Data Center charges by field office. As of April 1983, the modifications had not been made.

REASONS WHY "CAST" MAY NOT BE COST EFFECTIVE

One reason why CAST may not be cost effective is that the U.S. Department of Labor's funding for administering the unemployment insurance program acts as a deterrent to increased staff efficiency. The largest portion of the department's budget is funded by the U.S. Department of Labor. This budget is divided into two main components: the base budget and the overbase budget. The base budget is determined by estimating workload; the overbase budget is determined by actual workload. Two of the principal funding categories within each of the main components are personal services and nonpersonal services. The personal services budget covers staff salaries and benefits. Nonpersonal services costs, funded as a fixed percentage of the overbase personal services budget, include such items as rent, supplies, data processing equipment, and Health and Welfare Agency Data Center data processing charges.

The department earns its federal funding each quarter based on the actual work processed and the minutes per unit figures approved by the Department of Labor. If the department reports using fewer hours than it earned, the savings revert to the Department of Labor. The incentive, therefore, is to report exactly what is earned. As a result, field offices redirect hours saved in one activity to other program-related activities; however, the field offices report the redirected hours for the activities for which they were originally earned. Consequently, the department does not achieve any actual savings against which to offset the costs of automation. In effect, this method of funding could prevent the department from demonstrating cost effectiveness.

The U.S. Department of Labor's funding formula also acts as a deterrent to automation. If a state automates its unemployment insurance activities, it requires less time to perform those functions that have been automated. As a result, the number of "staff years" used is reduced, thus reducing the total personal services budget. When the personal services budget decreases, the nonpersonal services budget automatically decreases also. Automation, however, causes a state's nonpersonal services expenses to increase because of equipment and processing costs. Thus, the Department of Labor's funding method puts a state in a double bind: if a state increases staff efficiency by automating its program, it will receive

less money to operate the automated system. The Department of Labor's funding method, in effect, prevents a state from using Department of Labor funds to finance the operating expenses of the automated system.

The department, the Interstate Conference of Employment Security Agencies, Inc., Region IX of the U.S. Department of Labor, and the California Department of Finance have all recommended that the U.S. Department of Labor adopt a funding mechanism that allows states to convert personal services savings into nonpersonal services funds that would be used to offset the increased cost of automation. The correspondence has continued for over two years; the U.S. Department of Labor agrees with the concept but has not devised a means to implement it.

Another problem with the department's efforts to automate its field offices is that the department has not adequately planned and evaluated the CAST project. For the CAST project proposal, A Proposal For Testing A New Service Delivery System, the Department of Finance exempted the project at that time from the Feasibility Study Report requirements in the State Administrative Manual. However, the Department of Finance informed the department that it had concerns about the project:

> The project goals and benefits were very general and, in most cases, did not include the base from which success would be evaluated. There was no attempt to identify cost/benefit from a program perspective, nor any attempt to identify what level of achievement would constitute success. In addition, the issues of current costs vs. project costs, cost per measures of effectiveness, and cost avoidance were not addressed.

Subsequently, the Department of Finance approved the project subject to a number of conditions. One condition was that the department develop performance measures for cost and quality and that the department use these measures in evaluating the project. The department's first evaluation of the project, The California Automation of Services Team Project Evaluation Report, dated April 1981, did measure the project's performance in a number of areas, but it did not include any analyses of the project's cost effectiveness.

The department's next report on CAST, California Automation of Services Team Report to Joint Legislative Budget Committee, prepared in December 1981, does address cost effectiveness. The report concludes that CAST has resulted in savings in field office operations because less time is required to complete major workload components. However, the department incorrectly concludes that these savings are sufficient to render the system cost effective.

In the December 1981 report, the department attempts to demonstrate that the CAST system is cost effective by using the reduced minutes per unit measurements to derive the estimated savings in personal services expenses resulting from automation. Using this method, the department estimated the potential annual savings to be approximately $2.4 million. However, this potential savings cannot be realized. According to the report, the U.S. Department of Labor does not fully fund the department's personal services costs; therefore, the actual personal services savings would have been closer to $.7 million. Furthermore, under the Department of Labor's current funding method, the $.7 million savings would revert to the Department of Labor. Thus, the savings resulting from increased efficiency appear to be closer to $1.7 million. The report indicates, however, that the estimated annual operating costs for data processing equipment and Health and Welfare Agency Data Center processing charges were approximately $2 million. Consequently, the conclusion that the system is cost effective does not follow.

In addition, these potential savings in personal services expenses based on the reduction in minutes per unit do not represent an actual reduction in staff costs. Our interviews with department staff and a Department of Finance representative and our review of department cost accounting reports indicate that staff time saved by automation in some

activities has been used to improve the quality of services in other activities. As a result, actual staff costs have not been as low as those suggested by projections of personal services costs based on minutes per unit. Department officials indicate, however, that if the Department of Labor's funding mechanism were changed to allow this conversion of personal services savings to fund the increased automation costs, the department would instruct field offices to show real savings rather than redirect the hours to other activities.

PROBLEMS IN IMPLEMENTING THE "CAST" SYSTEM STATEWIDE

The department is formulating alternatives for expanding the CAST system to another pilot area in a form that could be used throughout the State. The department is procuring hardware and software for an automated Job Order Sharing System to be installed in 44 field offices. Within three years, the department intends to add unemployment insurance features to the automated systems in those offices.

Implementing CAST statewide in its current form is technically infeasible, however, because of limitations on the volume of data that can be processed simultaneously without unreasonable delays at the computer terminal. Thus, the department will need to further refine the CAST system, but it

will be able to do so only if it first evaluates the system in terms of cost effectiveness.

We found, however, that the department does not collect data to measure the cost effectiveness of each feature (automated process) of the CAST system. The department compares the minutes per unit for each workload function before and after automation, but such a comparison is too general because each function has a different number of automated features. For example, the workload function "initial claims" includes several automated features: "reception" is obtaining instant wage information that a potential claimant may use in deciding whether to file a claim; "completion" is the actual filing of the claim; and "recomputation request" is using the terminal to ask the Employment Tax Branch to correct an error in wage data. To make sound management decisions on the refinements needed before CAST is expanded statewide, the department should know the cost effectiveness of the individual features of each function. The department has been making these important management decisions without determining which features of CAST are most cost effective and, therefore, worthy of including in expansion plans.

The department may also face difficulties in receiving approval from the Department of Finance for implementing CAST statewide. The Department of Finance must

approve electronic data processing projects before any state funds are expended. A Department of Finance official has indicated that in reports required before and after approval of electronic data processing projects, the Department of Finance looks for measures of cost effectiveness, that is, a net reduction in the cost to operate the system. Thus, unless it can demonstrate that CAST is cost effective, the department may not receive approval to implement the system throughout the State.

CONCLUSION

Compared to Employment Development Department field offices using manual operations, field offices using the California Automation of Services Team (CAST) system have required less time to perform the main workload activities, have had a greater ability to handle the high volume of workload within their own existing resources, and have been more prompt in paying unemployment insurance benefits. Although the CAST field offices have exhibited improved performance, these offices may be more expensive to operate than manual field offices. Due to inadequacies in the department's cost accounting system, however, we cannot reach any firm conclusions about cost effectiveness.

The CAST field offices may not be cost effective because the Department of Labor's funding formula for administering the unemployment insurance program acts as a deterrent to achieving staff savings. In addition, the department has not adequately evaluated the cost effectiveness of the CAST project. As a result, the department, which is currently developing plans for expanding CAST, does not have the information needed to make sound management decisions about how to refine the existing system or design the new system.

RECOMMENDATION

To eliminate deterrents to achieving efficiencies through automated systems, the Legislature should enlist the assistance of the California Congressional Delegation to petition the U.S. Department of Labor to revise the unemployment insurance funding formula so that the Employment Development Department can use personal services savings resulting from automation to help offset increased nonpersonal services costs.

To improve the planning and evaluation of field office automation, the Employment Development Department should do the following:

- Redesign its cost accounting system so that reports on field office expenditures for personal services reflect actual time spent on the various unemployment insurance workload items and so that reports on field office expenditures for nonpersonal services reflect the costs of operating an automated system;

- Evaluate the cost effectiveness of each feature of the automated unemployment insurance system using data from the redesigned cost accounting system; and

- Prepare a comprehensive plan, based on the evaluation described above, for automating the unemployment insurance field offices. The plan should incorporate those aspects of the automated system that are cost effective.

We conducted this audit under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specifically contained in the audit request.

Respectfully submitted,

Thomas W. Hayes

THOMAS W. HAYES
Auditor General

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Sacramento, CA 95814

Dear Mr. Hayes:

Thank you for the opportunity to comment on the draft of your report. The Employment Development Department and Health and Welfare Agency have reviewed the content and our comments on the recommendations are enclosed.

We fully concur with most of the recommendations and will appreciate any assistance the legislature may provide in the form of amended laws and support at the Federal Government level.

We do have several concerns with some of the findings and recommendations related to management of job service programs and resources, as well as in the area of redesigning cost accounting systems for the unemployment insurance programs. Those concerns are described in the enclosure.

Sincerely,

Charles C. Harper

DAVID B. SWOAP
Secretary

Enc.

cc: K.R. Kiddoo
Director
Employment Development Department

COMMENTS ON RECOMMENDATIONS
INCLUDED IN AUDITOR GENERAL'S REPORT TO
THE JOINT LEGISLATIVE AUDIT COMMITTEE

RECOMMENDATIONS

A. Unemployment Insurance Overpayments

1. To increase the recovery of unemployment insurance overpayments, the Legislature should do the following:

   - Change Section 1379 of the Unemployment Insurance Code to allow the department to recover unemployment insurance overpayments by reducing benefit payments for up to eight years; and

   - Adopt legislation to allow the department to obtain statutory summary judgments for wage attachments against claimants who fraudulently obtain unemployment insurance benefits.

   Since a judgment is good for ten years, it is recommended that collections and offsets be continued for up to ten years.

   The report indicates that if a statutory summary judgment is obtained, the department can attach a claimant's wages if the claimant is employed. We concur with the recommendation to use this collection tool if it does not involve court and processing costs experienced in the past, together with the current practice of placing liens on real property.

2. To generate additional funding for the Benefit Payment Control Program, the Legislature should adopt legislation to allow the department to assess a penalty against claimants who fraudulently obtain benefits.

   The Employment Development Department has sponsored such legislation. (AB 718 - Robinson)

3. To increase recoveries of unemployment insurance overpayments, the department should do the following:

   - Pursue recovery of overpayments through interception of state tax refunds for at least eight years.

   - Pursue recovery of overpayments through reduction of unemployment insurance benefits for at least eight years once the Legislature increases the period of time the department may employ this technique; and

   - Pursue wage attachments to recover overpayments once the Legislature allows the department to obtain statutory summary judgments against claimants who fraudulently obtain unemployment insurance benefits.

We concur with these recommendations and will implement them if enabling legislation is enacted.

4. To improve the efficiency of its Benefit Payment Control Program, the Employment Development Department should automate the overpayment collection and recordkeeping activities.

   We concur with this recommendation. A project to accomplish this is included in the Employment Development Department's current Data Processing Long-Range Plan. The project will be initiated during the July 1983 - June 1984 Fiscal Year.

B. Job Service

1. To increase the placement of Job Service applicants, the Employment Development Department should emphasize activities that produce the greatest benefits, and it should increase the amount of time that Job Service field office staff have available for job development contacts and employer visits. Specifically, the department should do the following:

   - Establish minimum standards for the amount of time that Job Service field office staff must devote to making job development contacts and visiting employers;

   Job development contacts, employer visits and promotional campaigns are all tools to be used by office managers in a flexible manner to best meet the objectives of increasing available openings that match the available applicant pool. To make use of one tool mandatory could detract from successful use of other tools. Further, recently enacted Federal Legislation (Job Training Partnership Act) governing the use of Wagner-Peyser funds requires coordination and agreement with local Private Industry Councils regarding the mix and focus of our Service Delivery System. This reinforces the desirability and need for local discretion.

   EDD will emphasize the findings of the report in a policy statement which reminds managers of all available techniques, and the need to use those methods which appear to be most effective.

   - Direct field offices to conduct group registrations when placement staff are found to be devoting a significant amount of time to serving individuals required to register with the Job Service;

We concur in the recommendation to use group registrations when this method will be effective. There are many applicants for which group registration does not produce an application with sufficient information to be useful in "file search" to identify individuals meeting specific job requirements. There are, however, situations for which group registration is a productive and cost effective approach, and it's use will be promoted. In other words, approaches which may be cost effective and productive in a major metropolitan area such as Los Angeles or San Francisco may not be appropriate in smaller communities such as Alturas or Susanville.

- o Direct those field offices in which placement staff devote a significant amount of time to interviewing inappropriate self-referrals from the Job Information Center to restrict both the types of jobs that are posted and the hours during which these jobs are posted; and

Proper application of current EDD policy does apply the recommendation to restrict the posting of orders at the Job Information Center. Offices are not to post orders until applicant file search is completed. The fact that staff may spend more than 20 percent of their time interviewing applicants who have observed posted openings does not necessarily reflect "ineffective management". If the orders were not posted, those applicants would have required staff time at reception and interviewing stations answering inquiries about what job openings were available. The posted orders also, without additional staff costs, provide the opportunity for unemployment insurance claimants to "shop" for available job openings.

- o Either obtain agreements with counties to require only those General Assistance recipients who are employable to register with the Job Service and return for periodic visits or negotiate with counties for reimbursement for services provided to these recipients.

While we concur with the desirability of reducing these registrations or receiving reimbursement, it is a very difficult task. As a public employment agency, EDD is required to serve any member of the public requesting employment service. The policy of requiring General Assistance recipients to register is made on a county by county basis and represents a small percentage of the statewide workload. Where county officials have been receptive, local EDD managers have negotiated agreements which have resulted in reduced workload. As for reimbursement, there is no incentive for counties to pay for a service which they feel EDD is mandated to provide.

The biggest obstacle to applying this recommendation is reaching agreement on the meaning of the term "employable". This has been and remains a major issue in many counties and prevents agreement on who should register.

2. To increase the amount of time that Job Service field office staff have available to make job development contacts and employer visits, the Legislature should enlist the assistance of the California Congressional Delegation to do the following:

    - o Petition the U.S. Congress either to provide additional funding for Disabled Veterans Outreach Program positions or to grant greater flexibility in the use of these positions;

    - o Petition the U.S. Department of Labor to grant greater flexibility in the use of Local Veterans Employment Representatives;

    - o Petition the U.S. Department of Labor either to provide adequate funding for registering persons who receive benefits through the Extended Duration portion of the unemployment compensation program or to eliminate the requirement that these persons register with the Job Service; and

    - o Petition the U.S. Department of Labor to provide adequate funding for the completion of work related to the Targeted Jobs Tax Credit program.

   We concur with any effort to obtain funding and regulatory relief which provides greater flexibility in the use of staff resources. However, implementation of the Job Training Partnership Act may actually reduce flexibility in the use of Veterans Employment Representatives and staff dedicated to serving disabled veterans. Under this Act these services (and resources) will be directly negotiated with and controlled by the Veterans Employment Service.

   With regards to the findings related to the TJTC Program, the Department of Labor has advised us that funding for that program will be negotiable for the fiscal year beginning October, 1983, and ending September, 1984. EDD has taken steps to require field offices to fully report their activities regarding this program in order to give us the best possible bargaining position. Let me assure you that the Department intends to obtain as much funding as possible for the TJTC Program.

C. Field Office Automation

1. To eliminate deterrents to achieving efficiencies through automated systems, the Legislature should enlist the assistance of the California Congressional Delegation to petition the U.S. Department of Labor to revise the unemployment insurance funding formula so that the Employment Development Department can use personal services savings resulting from automation to help offset increased nonpersonal services costs.

   We fully concur with this recommendation.

2. To improve the planning and evaluation of field office automation, the Employment Development Department should do the following:

    - o Redesign its cost accounting system so that reports on field office expenditures for personal services reflect actual time spent on the various unemployment insurance workload items and so that reports on field office expenditures for nonpersonal services reflect the costs of operating an automated system;

    - o Evaluate the cost effectiveness of each feature of the automated unemployment insurance system using data from the redesigned cost accounting system; and

    The current federally designed cost accounting system provides field office cost data as reported by the offices. Overhead support cost can be allocated back to field offices if need be. However, to generate cost savings -- to actually produce and capture a dollar savings in automated offices versus non-automated offices -- requires a change in concept in managing field office resources.

    EDD is taking several actions which will accomplish the stated objective without the need to undertake a costly redesign of the current cost accounting system.

    A "log-on" procedure has been implemented to identify the cost center using any terminal in the CAST (California Automated Services Team) system. This procedure will be enhanced in the near future to identify the function being performed. Those steps, together with a "Cost Model" study scheduled for CAST offices during 1983 will identify actual operating costs by function.

    - o Prepare a comprehensive plan, based on the evaluation described above, for automating the unemployment insurance field offices. The plan should incorporate those aspects of the automated system that are cost effective.

    EDD's Operations Branch, Employment Tax Branch, and Data Processing Division are jointly working on a statewide automation plan utilizing resources as they become available. It is an accepted fact that the "current system" is based on an obsolete EDD manual and computer system which is inefficient, costly and does not enable EDD to provide mandated services within funded limits. EDD must bring its automated functions up to date.

The statewide automation plan will expand only systems that demonstrate overall cost effectiveness. Before expanding, computer processes will be redesigned to reduce computer costs. The statewide plan will include an evaluation of overall cost effectiveness. The CAST system on the other hand, was developed as a pilot and was not designed to be the most efficient and least costly system from a data processing perspective. It has however, demonstrated that substantially improved services can be achieved by automating unemployment insurance functions and, even without redesign, it does not substantially increase costs. By expanding with redesigned and refined processes, there is little doubt that improved services can be provided at less overall cost.

Finally, the automation plan will achieve objectives stated within the report for both job service and unemployment insurance programs. At the same time that the redesigned unemployment insurance system is being field tested, an automated order sharing system in the form of on-line networks involving 44 metropolitan field offices will be installed. Once the network is installed, employer job orders will receive quicker, better service; and a network capable of expansion to handle a more efficient unemployment insurance system will be in place. Both of these projects are underway at the present time.

ASSUMPTIONS AND METHODOLOGY FOR ESTIMATING ADDITIONAL RECOVERIES OF FRAUDULENT OVERPAYMENTS

This section presents the assumptions and methodology we used to calculate the additional overpayments that the Employment Development Department (department) could have recovered if it had had the resources to pursue more fraudulent overpayments in calendar year 1982.

Assumptions

1. In the first six months of 1982, the department would have sent to the field offices all 78,135 potential fraudulent overpayments that its automated detection system identified. In addition, the department would have sent 76,954 overpayments identified by its automated system to the field offices in the last six months of 1982. This assumes that the department's automated detection system would have used a formula that identified a potential overpayment for each claimant who received $50 in wages during the same three-month period that the claimant received one week of wages.

2. The department would have established that 60.5 percent of the potential overpayments in 1982 were actual overpayments. This is the same rate that overpayments

were established in 1981 when the department sent a high percentage of its potential overpayments to the field offices.

3. The average amount of an established overpayment would have been $157.96, which is the average amount of an overpayment established in 1981 plus a 5.065 percent adjustment to account for an increase in the weekly benefit amount between 1980 and 1981.

4. The collection rate on these overpayments would have been 53.51 percent, which was the collection rate on overpayments identified through the department's automated system in 1982.

5. The field offices would have processed the additional overpayments in 115,433 hours. This calculation assumes that the field offices would have processed these overpayments at the same rate as the field offices processed other overpayments in 1982.

6. The hourly cost to process these overpayments in 1982 was $15.16.

<u>Methodology</u>

Based upon these assumptions, we applied the following methodology:

1. To calculate the number of potential overpayments that could have been sent to the field offices in 1982, we added the 78,135 potential overpayments that could have been sent to the field offices in the first six months of 1982 to the 76,954 cases that could have been sent if the department used the formula specified in Assumption 1 for identifying potential overpayments. In total, we calculated that 155,089 potential overpayments could have been sent to the field offices in 1982.

2. To calculate the number of these potential overpayments that would have been established as overpayments, we multiplied the 155,089 potential overpayments by 60.5 percent, the proportion of potential overpayments actually established as overpayments in 1981. We calculated that 93,829 fraudulent overpayments would have been established.

3. To calculate the dollar value of these overpayments, we multiplied 93,829 cases by $157.96, the average amount of an overpayment that would have been established in 1982. We calculated that $14,820,291 in fraudulent overpayments would have been established.

4. To evaluate the amount of these overpayments that would have been collected, we multiplied the $14,820,291 by 53.51 percent, the collection rate on overpayments in

1982. We calculated that the department would have collected $7,930,338, an increase of $2,839,075 over the $5,091,263 the department actually collected in 1982.

5. To calculate the cost to process these overpayments, we multiplied the additional 115,433 staff hours required to process these cases by $15.16, the average hourly salary of staff who processed cases in 1982. We calculated that processing these overpayments would cost $1,749,964, more than the department spent on processing overpayment cases in 1982.

6. To calculate the increases in net recoveries, we subtracted the $1,749,964 in additional costs from the $2,839,075 increase in recoveries. We calculated that net recoveries would increase by $1,089,111.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
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